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MICHAEL A. MILES

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

BREIFING BOOK

ANNUAL MEETING 1994

I. BUSINESS ISSUES

A. Beer Operations
B. Financial Service Operations
C. Food Operations
D. General Operations
E. Tobacco Operations
F. Last Minute Q&A's

II. SHAREHOLDER ISSUES

G. Acquisitions and Divestitures
H. Advertising and Promotion
I. Communications
J. Contributions
K. Corporate Governance
L. Environment
M. Executive Compensation
N. Health (Tobacco and Food)
O. Human Resources
P. Labeling
Q. Legislation
R. Litigation
S. Lobbying
T. Miscellaneous Issues
U. Restructuring
V. Stock Matters
W. Taxation
X. Trade
Y. 1993 Annual Meeting Q&A's

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BUSINESS STATISTICS - 1993

Operating revenue: $60.9 billion
Operating companies income: $9.3 billion
Net earnings per share: reported - $3.52
on-going - $4.58
Market price of common share: high $78.75, low $45.00
Closing price of common share year-end: $55.625

Contribution to PM total revenues and operating income:

(Operating Income numbers exclude adoption of SFAS #112)

1993	Revenues (%)	Operating Income (%)
Food	50%	38%
Tobacco	42%	55%
Beer	7%	4%
Capital Corp	1%	3%

PM USA	op. revenues: $10.2 billion, down 14.8% over prior year op. cos. income: $2.8 billion, down 46.0% unit sales: 194.7 billion (industry 461.1) share of U.S. market: 42% (34% in 1983)
PM International:	op. revenues: $15.7 billion, up 15.2% op. cos. income: $2.4 billion, up 17.0% unit sales: 459.7 billion, up 9.2% exports: 114.4 billion units
N. America Food:	op. revenues: $20.9 billion, up 3.0% op. cos. income: $2.4 billion, up 10.5%
International Food:	op. revenues: $9.4 billion, up 8.1% op. cos. income: $1.1 billion, up 4.1%
Beer:	op. revenues: $4.2 billion, up 4.5% op. cos. income: $358 million, up 37.7% share of U.S. market: 22%
PM Capital Corp & Mission Viejo:	op. revenues: $402 million op. cos. income: $250 million

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

GENERAL STATISTICS - 1993

	Amount
Advertising	$2.4 billion
Annual Meeting	$2 million
Annual Report	$_____ per copy (print run of 1.2 million)
Audit Fees	$_____ million (estimated, actual available in August)
Contributions	$55.5 million (philanthropic)
Corporate Aircraft	$28 million
Legal Fees	$_____ worldwide outside counsel
R&D	$421 million

	Number
Corporate Aircraft*	11
Employees	173,224 worldwide
Board of Directors trips	4
Officers & execs, women worldwide	_____ of _____ total
Officers & execs, minority "	_____ " " "
Executives 18+	___ women (___%), __ minority (___%) of ___ total

*Corporate Aircraft are:

2 Gulf Stream 4
1 Falcon 50
7 Hawker 125-800
1 Sikorsky S-76 Helicopter

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

BEER OPERATIONS *Rev. 2/16*

Responsible Drinking

1. What's Miller's position on responsible drinking?
   - It is never OK to drive drunk or with ability impaired.

2. What is Miller doing in the area of responsible drinking?
   - AIM (Alcohol Information from Miller), designed to promote responsible drinking. AIM includes TIPS (Training for Intervention Procedures by Servers of Alcohol) for bartenders, liquor store clerks, and vendors, which is designed to teach responsible selling and serving.
   - Responsible Event Plan, a manual for anyone planning a large party, picnic, or festival. The plan addresses what do to prevent underage drinking.
   - Media campaign including TV commercials and print ads reinforcing the message "Think When You Drink."

3. Is the industry effective in communicating its responsible drinking message?
   - ~~Consumers are aware of the programs and believe the companies are being responsible in providing them.~~
   - Government studies indicate that there have been consistent declines in alcohol-related fatalities in the past 10 years, and cases of liver cirrhosis (a measure of alcohol abuse) have been declining significantly in the past 20 years.
   - Designated driver programs are used by about 2/3 of adults.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

4. Why the stepped up concern by the brewing industry about responsible drinking?

- Responsible drinking has been promoted for decades.
- Due to the efforts of groups like MADD and SADD, society's awareness of the problem of drunk driving has never been as great.
- The brewing industry has taken the lead in promoting server training and designated driver programs.

Drunk Driving

5. Isn't the brewing industry to blame when accidents are alcohol-related?

- It's a mistake to blame "the product" for alcohol abuse.
- The individual drinker is responsible for their behavior.

6. What is the brewing industry doing to support alcohol education programs to reduce drunk driving?

- Brewers are members of the National Commission Against Drunk Driving.
- Brewers support the US Department of Transportation "Buckle Up" campaign.
- Brewers support designated driver and free cab ride home programs.
- In the past 10 years, alcohol-related traffic fatalities have consistently gone down.

7. What's the brewing industry's answer to victims of drunk drivers?

- It's tragic.
- We support strict enforcement of existing drunk driver laws.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

8. What's your stance on drinking and driving? Can you still consume a beer and drive safely?

- Average adult beer consumer can have a beer and drive safely.
- Most states consider it a crime to drive with a blood alcohol content of at least .10%.
- Problem drinkers who have been arrested as drunk drivers have on average a BAC of .17%.

Blood Alcohol Content

9. Will the company support a proposed national goal of a uniform state blood alcohol content (BAC) standard of .08%?

- No. Most states have a blood alcohol content level of .10% because at that level of blood alcohol content, most people are impaired.
- The average drunk driver has a blood alcohol content level of .17%.
- Ten states have lowered the blood alcohol content level to .08%, but have no evidence that this has led to less drunk driving.
- Remedial programs and stricter enforcement of current standards are more likely to be effective.

Alcohol Content Labeling

10. What is your position on alcohol content labeling?

- Last year the courts lifted a long standing ban on alcohol content labeling.
- Alcohol content may now be placed on labels at the option of the individual states. We would prefer uniformity among the states' requirements.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Moderate Drinking

11. Will the company adopt the definition of moderate drinking used by the federal government in its "Dietary Guidelines for Americans" and use this in their public service announcements about moderate, responsible drinking?

- No. It is between an individual and their physician to determine what is moderate consumption based on biological and other data, such as health, weight, height, gender, food consumed, time lapsed, etc.

Beer and Illicit Drugs

12. Is beer a drug?

- Technically, yes. But while a "drug" is anything that can change the way our mind or body works, a person can legally and safely consume a can of beer without these altering affects.

13. Why is beer linked with illicit drugs?

- Concern about the potential harm that can come to young children who are not mature enough to handle an adult product like beer.
- "Scare tactics" can backfire, and may cause children to believe snorting cocaine has the same effect as drinking beer.
- Teach children that any use of illicit drugs may be harmful; drinking in moderation is quite safe for adults who choose to do so.

14. How do you respond to someone who links beer with illicit drugs?

- The main difference is you can legally and safely consumer a can of beer and not change the way your mind or body works.
- No long-term negative effects for the majority of adults who drink beer, as long as they do so responsibly. In contrast, very small amounts of illicit substances affect you quickly and drastically.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

15. Do you advertise and promote alcohol during spring break?

- We advertise and promote in licensed premises attended by adults over 21 in spring break markets.
- We discourage those who are not 21 with print ads like "Good beer is properly aged, you should be too" and "If you're under 21, don't even think about it."

Underage

16. How do you respond to criticisms that Miller's commercials appeal to underage people?

- Miller's policy requires actors in our commercials be at least 25.

17. Isn't Miller promoting its products to an underage consumer through its sponsorships of National College Athletic Association (NCAA) games?

- No. The viewer profile of college athletics is essentially the same as that of professional sports. The vast majority of viewers are of legal drinking age or older (approx. 70%).
- ~~We sponsor these events with the full support and cooperation of the conference and college administrators.~~

18. Does Miller advertise on network telecasts of NCAA football or basketball games?

- Yes. We advertise on ABC College Basketball and sponsor basketball games in the Big Ten, Southwest, Pac Ten, SCC and Metro conferences.
- We advertise on a very selective basis on televised college football and basketball games based on the individual market needs and other sports sponsorships in the market.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

19. Do your distributors sponsor college events and advertise on college sports events?

- Some of our distributors have sponsorship programs with colleges in their markets with the approval of the school's administration.

Sports Marketing

20. Miller has one of the most extensive sports marketing programs among American corporations. Why is Miller so heavily involved in sports?

- We are a sponsor of professional sports and advertise on sports broadcasts because many adult beer drinkers are sports fans.

21. What is the nature and extent of Miller's sponsorship of professional team sports?

- Miller is an official sponsor of both the National Football League and the National Basketball Association. The NFL and NBA sponsorships allow us to use official league and team logos on a variety of marketing materials.
- We also conduct several promotional programs - NBA All Star balloting and NBA draft and NFL Player of the Year - in conjunction with these sponsorships.

22. In addition to your league sponsorships, does Miller work directly with individual professional teams? What's the nature of these relationships?

- We have sponsorships with individual NBA, NHL, NFL and major league baseball teams.
- Sponsorships can include print and broadcast advertising, in-stadium or arena signage, team identified point-of-sale materials and the opportunity to participate in special promotions geared for adult fans.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

23. Describe your network sports broadcasts advertising program.

- We have advertising arrangements with NBC for their NBA telecasts and with ABC, CBS and NBC for NFL telecasts.
- We advertise on ESPN's major league baseball telecasts.
- We advertise on ABC's coverage of the Indianapolis 500, on selected network and cable NASCAR and IndyCar broadcasts, and on network coverage of Pro-Beach Volleyball.

24. Describe Miller's involvement in motorsports.

- Miller sponsors cars and races on the IndyCar and NASCAR circuits supported by advertising and promotional programs.

25. Some critics have been very critical of beer company sponsorship of motorsports—that such sponsorships target the undereducated and underaged consumer. What is your reaction to these criticisms?

- Our involvement in motorsports is designed to increase brand awareness among people, legal drinking age and older, who already have made the decision to drink beer.

26. Don't you consider Rusty Wallace and Bobby Rahal active athletes who endorse your products?

- We sponsor the respective racing teams for whom Rusty and Bobby drive.
- These drivers do not endorse our products.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

27. What other sports is Miller involved in?

- Association of Volleyball Professionals pro beach volleyball circuit
- Pro Mogul skiing team
- Mexican National Soccer team
- Amateur bowling tournaments for adults conducted by the Bowling Proprietors Association of America
- We also sponsor the PGA Tour and three professional golfers through our non-alcohol brew, Sharp's.

28. Miller Lite commercials popularized the use of professional athletes in advertising. How do you respond to criticism about the appropriateness of using athletes in beer commercials?

- The Miller Lite All Star campaign featured ex-professional athletes as well as other celebrities.
- We currently use Larry Bird and Pat Riley to help us convey our "Think When You Drink" messages to a broad audience.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

29. Given the recent drunk driving incidents involving athletes and growing criticism over beer's association with sports, do you think it's appropriate for brewers to continue to use athletes to advertise their products and sponsor sports events?

- We do not use active athletes to endorse our products.
- There is no link between our marketing programs and the situations you're referencing.
- A recent poll by the Roper Organization for the American Coalition for Entertainment and Sports Sponsorship (ACESS), found that:
  - 93% of adults believe corporate sponsorships of sports are a good thing.
  - 77% said government has no business deciding what types of businesses can sponsor sports events, and
  - 82% believe corporate sponsorships help keep ticket prices down and benefit the local communities by attracting visitors.

Marketing Communications

30. With the domestic beer industry essentially flat, how do you plan to grow the Miller business?

- First, growth of packaged-draft category which Miller established and leads:
  - Miller Genuine Draft is the only growing national brand in the full-caloried premium segment.
  - MGD is outperforming the industry and outperforming Budweiser.

(continued on next page)

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

- Second, continued shift to low-calorie brands:
  - Light beers account for more than 1/3 of the industry volume and are expected to grow to 50% of the industry total by next decade.
  - Miller Lite implementing initiatives in 1994 which include new packaging and new product innovation, beginning with Lite Ice, the nation's first low calorie ice beer.
- Third, emergence of the non-alcohol beer category:
  - Non-alcohol brew segment carries just under 2% of the industry volume (3 million barrels), and Sharp's holds approximately 20% share of the non-alcohol market.
- Fourth, new product development such as the nation's first domestically brewed ice beer, ICEHOUSE and Lite Ice, the nation's first low calorie ice beer.
- Fifth, the specialty beer market:
  - The specialty beer category has grown at double-digit rates for the past several years; from 3.2 million barrels of volume in 1993 to an anticipated more than 4.5 million barrels by 1995.
  - We introduced Reserve Amber Ale in March 1993.
  - Amber Ale is the largest seller in the Reserve line, and is one of the top micro-type brews in the country.
- Sixth, by International opportunities:
  - Miller products are available in more than 70 markets through exporting, exclusive partnerships, and joint ventures.
  - Molson and FEMSA relationships.
  - Increased global interest in American products.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

31. Assess the Miller Lite campaign. Is it effective?

- Miller Lite's "Combinations" campaign was introduced in June. The campaign is in the top-10 of the best-scoring ads, according to Video Storyboard Tests.
- "Great Taste/Less Filling," spots pair two sports or activities that don't typically go together, in a humorous and memorable way.
- Key advertising measures (awareness, trial, usage) show improvement among key consumer groups.

32. How is Miller Lite doing?

- Shipments were down by a smaller percentage than in recent years, reflecting concentrated marketing efforts to renew the brand's image.

33. Is Miller Genuine Draft's franchise continuing to grow?

- The MGD franchise continued to grow market share last year. It's the only growing national brand in the full-caloried premium segment.
- MGD franchise is now focusing on franchise advertising, combining MGD and MGD Light.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

34. What about Miller High Life?

- Repositioned as a near-premium in January 1993.
- After 12 years of decline, Miller High Life is growing and is the #9 beer brand in the country.
- Miller High Life's advertising returned to the "Miller Time" advertising theme.
- High Life grew share to 2.6% from 2.4% in 1992 (8.8% increase in volume).
- Miller High Life was introduced into three states in January 1994 to capitalize on new premium low calorie category growth.

35. What about Miller Reserve?

- Miller Reserve/Reserve Light was introduced nationally in September 1992. It is an all-barley draft beer which delivers a distinctive taste difference.
- With the March 1993 introduction of Reserve Amber Ale, Miller became the first major US brewer to offer a domestically brewed ale in major markets across the country.
- Total Miller Reserve Family 1993 market share of .07%, experienced 3% growth in retail sales.
- Repositioned to compete in the American specialty beer market, Amber Ale established strong presence in the emerging specialty/micro brew category representing 33% of the brand's volume in 1993.
- Introduced Miller Reserve Velvet Stout in February 1994.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

36. What about Leinenkugel's?

- Leinenkugel's has been brewed in northern Wisconsin since 1867.
- Brands are sold in 14 states and D.C., with core markets in the upper Midwest.
- Four brands are available year-round, with two seasonal beers – Leinenkugel's Bock and Leinenkugel's Winter Lager.
- We recently introduced Leinenkugel's Red Lager. Consumer demand has fueled $3.5 billion brewery expansion that will increase capacity 56% by September 1994.
- Retail sales increased by 15.3% in 1993.
- Market shares in key Minneapolis markets grew to 3.2% from 2.8%.
- Volume grew 10.1% in core markets during 1993.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

37. What about the Ice-Beer category?

- Ice beers have captured more than 10% of the Canadian beer market in 1 year. In the US, Miller has emerged as the category leader with three products in its portfolio: premium priced, full calorie ICEHOUSE, low calorie Lite Ice, and import/super-premium Molson Ice.
- Miller's ice beers are brewed in the authentic Canadian tradition. Miller's ice beers have a slightly higher alcohol content.
- ICEHOUSE, the nation's first domestically brewed ice beer, initially launched in select markets in late September. Because of the positive consumer and retailer response, its distribution was expanded nationally.
- ICEHOUSE uses the Plank Road Brewery name (MBCo.'s original name) and heritage to showcase uniqueness and specialty-beer characteristics.
- Based on our research, ICEHOUSE has a .3 share nationally.
- In mid-February, Miller nationally introduced the nation's first low calorie ice beer, Lite Ice. The product is 100% ice brewed delivering a rich tasting beer that's less filling. We expect the product to help strengthen the overall Lite trademark.

38. What about Miller Clear?

- Test marketing concluded in September.
- Did not appeal to consumers in forum we marketed.
- Market performance is being reviewed.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

39. Please give an assessment of the non-alcohol brew segment of your industry.

- The segment grew 11% last year to an estimated 2.6 million barrels domestically.
- Miller Sharp's was introduced in 1989, and has a 20% share of the non-alcohol segment.

40. Is there an increased interest in the international beer market by Miller?

- MGD in Puerto Rico: Introduced in September 1992, MGD has captured more than 30% of the Puerto Rico beer market.
- MGD also has had successful introductions in the United Kingdom and Ireland.
- We're continually looking at other opportunities to market our products globally.
  - Our products now marketed in more than 70 countries, through exporting, exclusive partnerships and joint ventures.
  - Increasing our global presence by new associate sponsorship of Team Lotus Formula One racing team and raw advertising buy on CNN's Latin American Network.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Philip Morris Capital Corporation

1. PM's proposed City of Los Angeles Library financing, through its financial services subsidiary - PMCC, was criticized by the local housing community. What was the main reason for the housing community's concern regarding the sale/leaseback?

   - PMCC ultimately did not enter into this transaction due to a negative vote by the Los Angeles City Council. The housing community's main concern was that annual rentals for the lease would have been provided from the Community Redevelopment Agency, whose purpose is to provide low-income housing projects.
   - There was also concern that a tobacco company would own the Library. PM would not have been involved in the daily operations of the facility.

2. If PMCC would have entered into this transaction, would the daily operations of the Library have changed? Would PM have exerted control of the Library?

   - PM enters into lease transactions as a passive investor. PM would have no control in the daily operations of the Library.

3. Was the proposed investment by PM in any way connected with the objective of gaining influence with the City of Los Angeles or the City Council?

   - No. It was purely a financial transaction.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Mission Viejo Company

4. Why is PM, a consumer products company, in the real estate business?
   - PM diversified into real estate in 1970. The company has changed since then. We are now managing our way out of the real estate business.

5. Why is your real estate division within PM Capital Corporation?
   - PMCC can provide financing for homeowner loans and land purchases even in a difficult lending environment.

6. Is PM planning to divest Mission Viejo?
   - Yes, but we are completing current projects, and we are not investing in new land acquisitions. The land owned in our planned communities is expected to be sold to residential and commercial developers over the next ten years.

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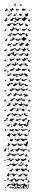
Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000



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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Retail Cheese Division

1. Please comment on the 1993 performance of Kraft's major cheese brands.

   - Our major brands (Velveeta, Kraft Singles, Kraft 100% Naturals and Philadelphia Brand) account for 75% of the Retail Cheese Division's volume and profit.
   - All of the key brands, except Kraft 100% Naturals, increased volume last year. The decline in 100% Naturals was driven by price competition and private label.

2. How did Kraft's Cheese business do in 1993 compared to the industry?

   - Total retail cheese industry increased 1.3% in 1993, while Kraft's composite share declined 0.4 share points due to increased competitive activity.
   - We hold the leading share at 43.2%.

3. Does Kraft have a monopoly in the US cheese market?

   - No. Kraft has less than a 20% share of the 6 billion pounds of cheese sold in the total US market each year.
   - Kraft has a 43.2% share of scanned product that is found primarily in the dairy case.
   - In the retail segment, which includes scanned product as well as deli case sales, Kraft has a 31% share.
   - [Note: Industry composition is 38% retail, 39% foodservice, 18% industrial, 5% government.]

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

4. Has Kraft successfully launched any new cheese products in the last year? What types of new cheese products will Kraft pursue in the future?

- We introduced:
  - Fat Free Philadelphia Brand Cream Cheese
  - Handi-Snacks Cheese and Breadsticks, and Cheese and Pretzels
  - Cheez Whiz Squeeze
  - new fat free slice flavors
  - Grated Cheese innovative container
  - entire line of 50% reduced fat products under the Kraft Healthy Favorites brand name.

5. What are Kraft's plans for recloseable packaging in the future?

- Introduced a new recloseable package for Kraft Natural Shredded Cheese with a horizontal zipper on the top (competitive packages have a vertical zipper).
- "Taste Lock" feature is a patented improvement developed by Oscar Mayer.
- Reusable containers for "Singles Saver" Velveeta, "Loaf Saver" and Philly, "Spread Saver."
- Kraft Grated Parmesan in a PET container that has a snap tight lid.

Fat Free Products

6. What is Kraft's strategy with respect to Fat Free Cheese products?

- We market Light and Lower Fat versions of our key brands. (Kraft Light Naturals, Cracker Barrel Light, Philly Light Cream Cheese products, Kraft Light Singles and Velveeta Light.)

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

7. Why doesn't KGF/PM introduce more fat free products?

- Technology hurdle. Significant work must be done to make certain the product performs.
- Taste
- Labeling rules may limit our ability to identify the product as a fat free version.

8. What has been your response to ConAgra's Healthy Choice cheese products?

- Accelerated rollout of "Better for You" products (e.g., Fat Free Philly).
- Launched "Healthy Favorites", a line of 50% reduced fat cheeses.
- Healthy Choice has achieved a 0.63% share of total cheese, and is sustaining only two segments: Natural Shreds and Cream Cheese. Healthy Favorites has a .66% share with a stronger distribution base.
- Comparative statistics:

	Healthy Favorites		*Healthy Choice*	
	Natural	Cream	Natural	Cream
Share (%)	1.5	0.2	1.0	1.2
Fat Content (g.)	3-4	4-5	0	0
Average Retail Price/Lb.	$4.07	$2.95	$4.22	$2.88
Taste (% Prefer)	66.0	56.9	25.7	35.8

Source: Nielsen, Internal

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Cheese/Dairy Pricing

9. There have been reports that Kraft General Foods controls cheese prices through the National Cheese Exchange. What is your company's position?

   - We don't. Supply and demand determine milk and cheese prices.
   - Kraft General Foods uses the National Cheese Exchange "opinion" as the basis for establishing bulk cheese prices.
   - Federal government has reduced support prices for dairy products. Prices for milk and other dairy commodities have become exposed to the forces of supply and demand.

10. Why do shareholder groups keep challenging your behavior in the cheese market?

   - Two shareholder groups who would like to see higher milk prices
     - due to government regulations, or
     - by Kraft manipulating milk prices higher.
   - Kraft believes that milk prices should be a function of marketplace forces of supply and demand.
   - Kraft's acts must be in compliance with the law.

11. Do we expect cheese commodity costs to fall or rise dramatically? What is our long term outlook?

   - Cannot predict the supply and demand for cheese due to the uncertainty of key market variables such as:
     - weather
     - dairy herd size, and
     - pattern of government intervention.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Farm Legislation - Dairy Price Supports

12. What is KGF's position regarding milk price supports?

- We support reliance on the free market to determine supplies and prices of milk.
- If government intervention is necessary, targeted income support without control on production may be appropriate.

Farm Legislation - Export Programs

13. What is Kraft's position on dairy exports?

- KGF/PM supports US dairy exports.
- As barriers to trade are lowered, the US dairy industry is well placed to compete in global markets. US cheese exports grew 26% over the last couple of years, and we expect these trends to continue. As the leading cheese marketer in the US, KGF is well positioned to participate in these expanded markets.
- KGF supports market driven export programs that are consistent with our international obligations and do not jeopardize the continued availability of dairy products at reasonable prices for US consumers.

Farm Legislation - Milk Marketing Orders

14. What does PM/KGF think about the milk marketing order system?

- It is appropriate to provide a mechanism for dairy farmers to receive a blended price reflecting the use of milk for drinking as well as manufacturing.
- Certain aspects of the program tend to encourage milk production in parts of the country where it is not efficient.
- Continued refinement of the program by the USDA is appropriate.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

15. Haven't your company's actions reduced the price of cheese and hurt dairy farmers?

- Milk prices are now currently high, due in part to the flooding of last summer. But farmers have been hurt due to the volatility in milk prices resulting from the drop in government price supports without adequate programs to ease the transition. Price supports have dropped nearly 25% since 1981 as federal dairy policy moves toward a "free market" approach.
- For the past three years, we have supported an increase in the government's support price.

16. What is wrong with guaranteeing dairy farmers a decent living?

- Government subsidies do not guarantee farmers a decent living.
- Could result in over production.

State Dairy Trade Practice Laws

17. Does KGF/PM adhere to trade practice laws for the dairy industry?

- We comply with all applicable laws.
- Competition is better served by applicable general antitrust and unfair competition laws.

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Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

18. What are the results of the State of Wisconsin's investigation of the National Cheese Exchange?

- The investigation of the National Cheese Exchange by the Wisconsin Department of Agriculture, Trade and Consumer Protection has not been completed.
- No results have been announced.
- Kraft has committed no illegal or unethical acts.
- *{Investigation may come to an end between now and time of Annual Meeting.}*

19. What was the FTC decision affecting Singles? What is the prospective business impact?

- The Federal Trade Commission entered an order finding that some 1985 Kraft Singles copy implied a misleading claim regarding Singles' calcium content vs. milk and analog products. This order has become final.

Cultured Products

20. How has integration of the Cultured Products Group into KUSA gone?

- We have integrated the former Cultured Products sales force into the KUSA sales force and have added the seven Cultured Products operating plants to the KUSA stable of plants.

Viscous

21. How are Kraft Mayonnaise and Miracle Whip priced compared to Hellmann's?

- Parity priced.
- Free products are priced approximately 8% above Regular, reflecting higher cost.

2022991661

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Margarine

22. How is the margarine business doing?

- In 1993, the margarine and spreads category declined 9%.
- Total 1993 Kraft tablespreads share was down 0.8 points (Parkay down 0.1 points, Touch of Butter down 0.7 points).
- Health concerns regarding margarine affected the category.
- Butter category grew 5.5% due to low butter pricing.

Meat Enhancements/BBQ

23. How is the meat enhancements/BBQ business doing?

- Kraft Barbecue Sauce portfolio had an outstanding year in 1993.
- Volume was up 8.6%, earnings were up 5.4%, and share was up 2.1% to 49.3%.

DiGiorno

24. What is the status of Kraft's fresh/refrigerated foods program?

- Kraft terminated test marketing of Kraft Fresh Creations in April 1991.
- Projected volumes did not justify the significant investment to expand.
- Now focused on DiGiorno refrigerated pastas and sauces.

2022991662

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Pollio

25. There were several Italian cheese acquisition deals either completed or rumored in 1993. Did Kraft participate?

- We cannot comment on specific acquisitions, but Kraft does examine "glue-on" acquisition opportunities.
- [Note: Yes, we did participate with regards to the possible sale of Sorrento; however, the owner, Besnier, decided to retain the business.]

Coffee

26. Why aren't you participating in the Gourmet coffee segment?

- Our Gevalia mail order coffee business with $100 million in revenue is the largest single packaged gourmet brand in the US. (Gevalia 1993 volume was 13% above 1992, following 21% growth in 1992 vs. 1991.)

Bakery

27. Is the cake business growing?

- Cake growth strategies generated volume growth of 4.6% in 1993.
- Major contributors to this growth are:
  - Fat free growth
  - Entenmann's Singles rollout in Northeast
  - Effective advertising
  - Successful expansion to Wal Mart and K-Mart.
- We will continue these strategies.

2022991663

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Cereal

28. How long do you think the cereal market will continue to grow?

- It is growing at a 3%-5% rate per year.
- This growth will continue as a result of the growing consumer interest in health and nutrition, steady flow of new products and high level of consumer marketing.

29. General Mills has stated they are not raising prices yet, Post and Kellogg keep raising prices. Any comment?

- Our price increases are influenced by an evaluation of our total cost of doing business and the competitive framework.
- We focus on maintaining the price/value relationship of our products.
- General Mills brands are often higher priced.

30. How is Nabisco performing?

- Nabisco has been seamlessly integrated and has significantly exceeded our expectations.
- For 1993, volume was 76.3 million pounds and IFO was $52.1 million compared to Plan projections of 63.6 million pounds and $30.0 million, respectively.

2022991664

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Dinners & Enhancers

31. What is the impact of private label on the Dinners & Enhancers division?

- Division has shown significant growth over the last several years, but growth slowed in 1993.
- Private label pressure is increasing due to distribution gains and price gaps as shown below:

	Private Label Share		*Price Gap Vs. Private Label*	
	1992	1993	1992	1993
Stuffing	9.9%	11.4%	51%	61%
Instant Rice	2.3	2.7	34	43
Coatings	0.2	1.2	61	61
Syrups	23.4	23.5	107	107

- We plan to restore base momentum by managing price gaps, improving the quality and nutritional profile, and enhancing packaging.

Oscar Mayer

32. What is Oscar Mayer doing to prevent E. Coli bacteria contamination?

- E. Coli is a bacterium found in warm blooded animals and is destroyed by thoroughly cooking raw meats.
- All food borne outbreaks have been linked to foods that have not been heated or foods that were improperly heated.
- Oscar Mayer processed meats are thoroughly cooked to an internal temperature of at least 155°F.

2022991665

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

33. During the year there were news stories of unsanitary procedures being performed at some meat packing plants. What is Oscar Mayer's position on this issue?

- Purchase high quality meat raw materials only from federally inspected meat plants.
- Each lot of raw material is again inspected for approval by us when it arrives at our plant.
- If our inspection shows that any shipment is not up to our standards, we dispose of it or return it to the supplier.

34. Oscar Mayer has closed its Sandusky, Ohio facility and recently downsized its Nashville facility. Why were these facilities shut/downsized? Are there further closings planned?

- Plants were closed/downsized to eliminate excess production capacity and reduce costs.
- To ensure that we are cost competitive, additional plant closings may be needed.

Budget Gourmet

35. There has been a lot of press about problems in the frozen meal category. How has the category and All American Gourmet performed?

- The frozen meals category has performed very strongly in 1993 with volume up 5%. That's the largest increase in the category in more than four years.
- AAGC's total volume has increased 15%, three times the rate of the category, driven by solid consumer advertising support for the Budget Gourmet brand and the introduction of a new line of pasta entrees "Budget Gourmet Special Selections."

2022991666

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

36. The trend towards healthier eating continues to grow. How is All American Gourmet responding?

- All American Gourmet currently has a "Light and Healthy" line extension for both its core entrees and dinners businesses.

37. There has also been a lot of speculation in the press about KGF getting out of the frozen food business. Do you plan to sell All American Gourmet?

- We have no plans to sell the business at this time.

KGF Canada

38. What is KGF Canada doing to battle the increasing popularity of Private Label products?

- Consumers today are focusing on value. KGF Canada has been focusing on building greater value into its products at the same cost to consumers.
- Building greater value via the creation and communication of relevant consumer news, ensuring product superiority, and leveraging cross-brand linkages.
- KGF Canada has been aggressively reducing its costs to manage prices vs. private label.

39. What is KGF Canada doing to meet the gaining popularity of club-size products?

- KGF Canada has established a separate sales and business organization to work with these new customers.
- We have created a number of new package sizes and formats to capitalize on this area. These are made available to all our customers at the same prices and terms. Sales of these new pack sizes were up over 20% in 1992, and a further 34% in 1993.

2022991667

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Kraft Food Ingredients

40. Is food ingredients an attractive business?

- KFI is an industry leader in supplying such value added ingredients as cheese, spray dried products, confections, vegetable oils and cheese analogs.
- Growth is driven by retail food trends towards taste, convenience, nutrition, value and variety.
- KFI has distinctive competitive advantages, and attractive opportunities exist to expand globally.
- KFI provides synergies to KGF as a supplier, in improved plant utilization and in technology.

41. Does KFI sell ingredients to KGF competitors?

- KFI sells products to most major food processors in the United States.
- The company does not sell any products which would give a competitor an advantage over KGF.

42. Does KGF participate in the private label segment of the food industry?

- KFI does manage a portfolio of private label business in categories where we do not have branded entries such as vegetable oils, pan sprays, and non-dairy creamers.

43. What is BerZerk Candy Werks?

- BerZerk Candy Werks is a small entrepreneurial business within KFI, focused on children's novelty candies. Products include *Candy Caller*, introduced in May 1993, which sold over $11 million by year-end.

2022991668

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Kraft Foodservice

44. What is the representation of other KGF products in your warehouses?

- KGF Products account for 21,056 SKU's out of the 200,000 SKU's in the Kraft Foodservice Network. The majority (67.0%) of the SKU's are from General Foods and Oscar Mayer.

45. To what extent is your workforce unionized?

- Kraft Foodservice has 42 locations and 12 are unionized as of December 1993.

46. Any divestitures planned for 1994?

- No divestitures are planned for 1994.

47. What are your new facility plans for 1994?

- Our Miami and Indianapolis distribution centers will move to new facilities.
- Plan to expand several facilities, and are evaluating new facilities at a few existing locations that are not expandable.

48. How many districts have SANDRA 90?

- The SANDRA 90 operating system is in 32 locations as of year-end 1993.
- SANDRA 90 will be in all 42 locations by year end 1995.

49. What is "Service So Good"[R]?

- Integration of better business practices into the everyday operations including all behind-the-scene activities.

2022991669

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

50. Where is "Service So Good"[R] currently in practice?

- "Service So Good"[R] has been implemented at 13 field locations with 6 additional locations to be implemented in 1994.

51. How successful has "Service So Good"[R] been?

- Growth rates experienced by the "Service So Good"[R] districts are noticeably higher than the districts not yet implemented, both in Operating Revenue and Income from Operations growth (3.4 pts and 21.4 pts higher, respectively).

52. How has KRAFT LINK™ helped Kraft Foodservice?

- Provides another competitive advantage through technology by enabling major chains and healthier accounts to better manage their foodservice operations. Some applications are direct ordering of product, access to their own inventory records, and menu interfaces.

53. Has KFS made any productivity improvements?

- During 1993, the finance function at the National Processing Center in Phoenix has improved financial transaction processing and has used technology to enable them to triple their output without adding any additional headcount.
- KFS will continue its efforts.

2022991670

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

BST

54. Is the FDA the only agency that says BST is safe for humans?

- No. Regulatory agencies in over 20 countries, including the United Kingdom, Canada, France and Germany, have authorized BST as safe for human consumption.
- Other health and medical groups have certified that BST is safe. (American Medical Association, American Dietetic Association, National Institutes of Health)

55. What is BST?

- BST is a naturally occurring protein hormone, Bovine Somatotropin, that is in all beef animals.
- If given to cows it can help increase milk output.

  [Note: BGH and BST are the same.]

56. Will Oscar Mayer use beef with BST, the Bovine Growth Hormone? Yes

- BST is a naturally occurring protein in all cows.
- In November 1993, the FDA approved Monsanto's version of supplemental BST which is now commercially available.
- The FDA has said the beef from herds treated with supplemental BST is the same. There is no test to detect the difference.
- We are not rejecting beef from BST-supplemented herds.
- Oscar Mayer uses dairy cows in some of its formulations because the meat is leaner.

2022991671

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

57. Will KGF use milk from cows treated with BST?

- The FDA approved the use of BST in November, 1993.
- If farmers choose to use BST, we see no reason to reject the milk.
- Because the milk is the same, there is no way to test for milk from supplemented herds.

58. Don't you think consumers will want labeling to tell them whether supplemental BST is in their dairy products?

- According to the FDA, the milk is the same, so there is no need to put labeling on products.
- We will continue to provide consumers with safe and wholesome products.

Biotechnology

59. Do you use bioengineered foods in your products?

- Virtually all of the world's food supply has been "bioengineered" through plant and animal breeding improvements.
- The FDA is considering whether further regulations in this area is necessary.
- In the currently popular use of the term, however, we do not use bioengineered foods or ingredients in our products.

60. Do you have plans to use bioengineered foods in the future?

- All of these foods must be reviewed by the US Food and Drug Administration before they can be marketed. After FDA approval, we will explore our options.

2022991672

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Irradiation

61. Do you use irradiated foods in your products?

- We do not currently use the irradiation process.
- We have no current plans to use irradiation or irradiated ingredients.
- We have many other ways to ensure the safety of our products.
- Given the nature of our product line, irradiation does not represent a major opportunity for us.

Animal Testing

62. Do you do any animal testing?

- KGF does not do any animal testing inhouse.

63. Do you contract for animal testing and if so, where?

- We do the work at internationally recognized laboratories conforming to the highest national and international standards.

64. Can't you find a way to stop the practice?

- KGF contributes to research aimed at trying to identify alternatives to using laboratory animals.
- We are not able to fulfill our ethical and legal obligations without the use of laboratory animals, now or in the near future.

65. Is Oscar Mayer sensitive to Animal Rights and Animal Welfare issues?

- Oscar Mayer purchases meat and poultry ingredients from processors who certify compliance with USDA Humane Slaughter Laws and Regulations.

2022991623

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

66. Oscar Mayer grows and processes turkeys. Do they follow good animal welfare practices?

- Yes. All company grown turkeys are produced under appropriate housing and feeding practices.
- All turkeys are processed and handled in compliance with USDA Humane Slaughter Regulations.

2022991674

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Kraft General Foods International

KGFI/Suchard consolidation

67. How is the KGFE/JS consolidation progressing?

- Very well. Plans are underway for consolidation of country organizations and headquarters.
- Munich will remain an R&D center for grocery and cheese.
- Majority of the consolidation work should be completed by the end of 1994.

"Dolphin-Free" Tuna

68. Do Kraft General Foods' products in Italy, Mareblu, use only "dolphin-free" tuna? Yes,

- KGF Italy adopted and put into practice a policy of purchasing and selling only tuna which is certified to be "dolphin-free."
- Suppliers must provide the company with the necessary certification.
- Simmenthal is signatory, along with the rest of the Italian tuna industry, to a protocol with the Belle Rive Foundation in Italy, which provides for independent verification.

2022991675

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Emerging Markets

69. How are we capitalizing on the opportunities in Russia and Eastern Europe?

- Russia and Eastern Europe are important expansion markets for long-term growth.
- We export Jacobs Suchard coffee and confectionery and other food products into Russia and Eastern Europe.
- We recently signed agreements to acquire:
  - the Kaunas confectionery company in Lithuania
  - the Republika confectionery company in Bulgaria
  - the Chorzele Cheese company in Poland
  - the Poiana confectionery company in Romania
- We have made significant acquisitions in Hungary (Csemege), in Slovakia (Figaro), in Poland (Olza), and in the Czech Republic (Dadak).

70. Do you have a business in Yugoslavia? Is this at risk?

- We do not have an in-country operation in Yugoslavia.
- We continue to export product to Yugoslavia
- Tonnage has dropped off each year since 1991 when we sold nearly 2,000 tons of product.

71. Doesn't KGFI's expansion into developing areas of the world encourage people to adopt the unhealthy eating habits of Americans?

- We are in the business of giving consumers what they want — not dictating their needs and preferences.
- We produce food products of the highest quality, safety, hygiene, and nutrition for consumers who wish to buy them, wherever they live.

2022391676

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Private Label

72. Are there large price gaps in Europe between branded consumer goods and private label products?

- European price gaps have been at the same order of magnitude as the US experience.

73. How large is private label in Europe in your main categories?

- Private label shares have traditionally been higher in Europe than in the US, but they are not growing.
- The importance of private label products varies by country and by category.
- Private label is not a major threat in Roast & Ground coffee and confectionery. (Excluding the trade that is "closed" to us such as Aldi in Germany.)

Irradiation

74. Does KGFI sell irradiated food anywhere in the world. What is the corporate position?

- The World Health Organization estimates that widespread use of irradiation would save $1 billion annually in costs now associated with the treatment of trichinosis.
- Consumer concern and unease is such that we have decided, for the present, to avoid the use of irradiation on our food products.
- We support continued research in this technology and education to increase consumer understanding and support.

2022991677

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Animal Testing

75. What is the corporate position on animal testing? Is animal testing used by KGFI?

- When biological testing is necessary, all research is conducted and supervised by officials with training and experience in animal care and is conducted in facilities which meet or exceed national standards as established by the US Government or the American Association of Laboratory Animal Science.
- The company supports ongoing research to develop alternative methods of biological testing.

Price Hedging

76. What are your largest raw materials, and do you hedge their prices?

- Our largest raw materials are coffee, cocoa, and milk.
- We utilize hedging strategies on coffee and cocoa.
- We are unable to hedge milk prices because it is a locally-controlled commodity in the EC, and there is no futures market for this.

2022991678

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Sugar Program

77. What is the KGF position regarding the US Sugar program?

- The program causes artificially high prices for sugar through import quotas and marketing allotments that create imbalance between supply and demand.
- In the 1990 Farm Bill, Congress adopted mandatory marketing allotments which were announced for the last quarter of FY93.
- We registered our opposition to allotments through the Sweetener Users Association, and provided industry support for the announcement by the Secretary of Agriculture on September 30, 1993, that marketing allotments would not be imposed for the first quarter of FY94.

78. Is there an opportunity in the near term to modify the domestic sugar program?

- The Omnibus Farm bill will be up for reauthorization in 1995, and the sugar program will be targeted for reform.
- Congress has shown an increasing dissatisfaction with agriculture subsidy programs.
- Growing divisions exist between the domestic sugar growers and processors for the future direction of the sugar program.

ECR Impact on Independents and Wholesalers

79. What opportunities does ECR provide for the independent?

- ECR provides the independent with a more efficient cost structure to bring better value to customers.

2022391679

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

ECR Technology

80. The grocery industry was the leader in the development of bar-coded identification Electronic Data Interchange, and the Uniform Code Council played a key role in the development of common industry standards for those. How and why then did general merchandisers pass the grocery industry in the field of technology and develop all of the various technological programs that enabled Quick Response to become so effective?

- Industry members were primarily committed to maximizing their own benefits. ECR creates total supply chain.

ECR Change and Benefits

81. Doesn't ECR go beyond the installation of scanners and imply the type of change for the industry that goes way beyond any ordinary advancement in technology?

- Two-thirds of the ECR savings, or $20 billion, can be achieved with current technology.
- The challenge is changing businesses practices.

82. How will the cost savings claimed by ECR be divided among the respective partners?

- A 50/50 split of costs savings was the case in Quick Response developed in the apparel/general merchandise arena.
- Kraft General Foods' experience in customer alliances shows a 60/40 split favoring the distributor.

83. Does a system which gives the supplier control of inventory, invoices, promotions, etc. place too much control in the hands of the supplier?

- ECR does not give or take away "control." It is a cooperative effort.
- Companies work together to achieve mutually beneficial savings.

2022991680

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

84. In your opinion, does the ECR project solve the problem of maintaining a level playing field on deals and allowances for the independent operator and his wholesaler? If so, how? If not, why not?

- The ECR vision for promotions is that they are more efficiently executed through Point of Sale/scan capabilities.
- The current sea of inefficient trade dealing will evaporate and with it most, if not all, level playing field issues.

85. Why did the Uniform Commercial Standard (UCS) concept lose its momentum and why should one believe that ECR will live up to its potential in the food industry?

- UCS lacked a vision to drive it. ECR is a complete vision of a more effective system.

86. Will independents be willing to share their Point of Sale scan data with their wholesalers? And with their manufacturers?

- Over time more and more independents will see the value of a supply chain that is driven by Point of Sale/scan data.

KGF and ECR

87. What are KGFNA's plans to take advantage of ECR growth?

- We are focusing our energies on 3 areas:
  - Changing our business practices to take advantage of EDI (Electronic Data Interchange) capabilities to exchange critical market and transaction data with our customers;
  - preparing to assist customers as they adopt the category management approach to selling products; and
  - taking advantage of the formation of KGF Customer Service, Incorporated to provide a wide-range of distribution options that only a company like KGFNA can offer.

2022691681

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Microbial Contamination/Hazard Analysis Critical Control Point (HACCP)

88. What is HACCP and what is the impact of USDA and FDA regulations for HACCP on Oscar Mayer?

- Hazard Analysis Critical Control Point (HACCP) plans are tools designed to identify and control know food safety risks in conversion and distribution processes.
- USDA and FDA are proposing regulations for HACCP which will be applicable to our meat processing business.
- Oscar Mayer has, on a voluntary basis, established a plan to implement HACCP in all plants in 1994.
- The impact to current conversion and distribution systems will be minimal because HACCP plans are an enhancement to OMFC current USDA approved Total Quality Control programs.

USDA Food Safety

89. Does KGF support the recommendations of the Vice President's Task Force on Reinventing Government that calls for transferring the food safety responsibilities of USDA, now carried out by the Food Safety and Inspection Service (FSIS), to the Food and Drug Administration?

- The current meat and poultry inspection system is outmoded.
- It does not provide adequate public health protection.
- It is greatly in need of reform.
- The required reform can be carried out effectively by the Department of Agriculture.

2022991682

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Temporary Emergency Food Assistance Program (TEFAP)

90. Does PM/KGF support emergency food assistance programs such as TEFAP?

- It is appropriate to distribute surplus food for humanitarian purposes in foreign disasters.
- Domestic distribution must be managed very carefully to avoid distribution of food to non-indigent and thereby disrupting the entire food distribution process in the US.
- Food stamps are a better way to handle distribution to the poor in the US.

2022991683

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991684

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

General Concerns

1. What is the long term impact of the health care tax increase on our overall business — stock price, profits, etc.?
   - That's difficult to predict.

2. What is the read on what the Marlboro Friday strategy is going to bring us?
   - Our strategy is working.
   - Market share is up.

3. With the growth opportunities in Eastern Europe and Asia, does PM intend to staff positions in those areas with expatriates? Also, this is costly to the company. Are there other alternatives being considered?
   - We have a small international cadre of career expatriates.
   - We use expatriate assignments of 3-5 years to transfer technical expertise to the local marketplace.
   - The goal is to train local employees as quickly as possible to perform their responsibilities independently.

Corporate Aircraft

4. Why does PM need an Aviation Department?
   - 2 primary reasons:
     - Many locations in the US and in Europe are difficult to reach via commercial air, and it allows us to travel in developing regions of the world not supported by reliable commercial airlines.
     - Greater level of security for senior management.

2022991685

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

5. How many corporate jets does PM have?

- 10 jets, 1 helicopter.
- We had 14 last year.

6. How much does the corporate aircraft program cost?

- Project $24 million for 1994 (OB).
- Down $9 million from 1993 OB (1993 actual was $28 million).

Headquarters Costs

7. What is the corporate headquarters doing to keep costs down?

- In all cases 1994 operating budgets are less than the 1993 budgets.
- Due to the early retirement program offered in 1993 and elimination of open positions; headcount is down 100 positions (1993 year-end headquarter headcount is 972).
- All functions are looking to further reduce costs.

Smoking Policy

8. Does PM have a smoking policy? If so, what is it?

- Yes, we do. In a nutshell, it is a policy based on respecting the rights of non-smokers and smokers, courtesy, mutual respect, and accomodation.
- Our policy, "A Guideline to Accommodating Smoking," is available.

2022691686

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

9. What is PM doing for its employees who are exposed to ETS in the workplace?

- We do not believe ETS is harmful.
- We accommodate both smokers and nonsmokers in our workplaces.
- The maintenance of our ventilation systems meets or exceeds current HVAC standards as established by the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE).

Burma

10. Do you carry on any business dealings in Myanmar (Burma), whose government has a history of human rights abuses?

- No.

Vietnam

11. Does PM have an office in Vietnam? Does PM support the lifting of sanctions in Vietnam?

- On December 14, 1992, President Bush gave permission for US firms to negotiate contracts that could become binding once the embargo is lifted. Since then, several US firms, including PM, have received licenses to open up representative offices.
- PM has established a representative office to help us assess potential business opportunities.
- PM has not taken any position with respect to lifting the embargo against Vietnam. We are awaiting the outcome of the US Government's deliberation.

update

2022991687

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

India

12. With the recent liberalization of the economy in India, will foreign investments increase? Is PM planning to increase its presence in India?

- We are looking at several alternatives to increase our presence in India.
- We are already present in India with 30% ownership of the second largest cigarette company, Godfrey Philips of India.

People's Republic of China

13. Do you do business in the People's Republic of China? Do you think the PRC, with its abusive human rights record, should be "rewarded" by western companies for the sake of profit?

- Yes. We are in compliance with the policies of the US State Department regarding the PRC.
- With a population of 1.2 billion, it's essential that we increase our presence there as our principal competitors have and continue to do so.
- To date, we have established 3 joint ventures:
  - coffee (Maxwell House) with the Guangzhou Dairy Products Factory,
  - powdered beverages (Tang) with the Great Wall Food Company in Tianjin, and
  - KGFI with Beijing General Corp. for Agriculture, Industry, and Commerce to start a joint venture dairy plant.

2022299688

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

14. What does the recent cooperation agreement represent in terms of PM's potential tobacco business in China?

- There are 3 phases to this agreement:
  - production of a brand for export,
  - production of Marlboro for the domestic market, and
  - production of other brands for both domestic and export sales.
- We expect most of this to begin this year.
- With over 300 million smokers, China is the largest cigarette market in the world.
- Currently, the Chinese monopoly alone accounts for almost 1/3 of the world's cigarette production. International companies currently hold only 1% of the market.

2022991689

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

South Africa

15. What is your outlook on South Africa?

- Our KGF and Jacobs Suchard businesses have licensing agreements in South Africa, but royalties are relatively insignificant.
- Philip Morris International has existing arrangements in South Africa also.
- ANC has recommended lifting the ban on investment in South Africa.
- The federal government under the Bush administration lifted the ban.
- Many of the state and local governments have not yet lifted their bans.
- Our posture has not changed, but we are monitoring the South African market very carefully.

2022291690

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991691

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

PM USA

1. What are the biggest risks to PM USA 's growth outlook.
   - Price competition due to aggressive support for private label and other low priced products.
   - Widening price gap between premium and discount brands.
   - An increase in the FET.

Market Share

2. What is PM USA's position in the industry; its share of market?
   - Market leader since 1983.
   - Shipment share of market in 1993 was 42.2%.
   - The best selling premium and discount brands in the industry.
   - Marlboro shipment share in 1993 was 23.5%, largest brand.
   - Basic, third largest brand and the largest discount brand, 5.3% shipment share.

3. What are your share targets in 1994?
   - I won't make any share projections.
   - PM-USA has a strong leadership position going into 1994. We read the marketplace carefully and are prepared to act appropriately.

2022991692

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

4. What is the difference between the traditional Nielsen numbers you have been using and the new expanded Nielsen survey referred to in your release?

- Nielsen's expanded survey covers more retail outlets.
- Based on the expanded survey, Marlboro's retail share increased 4.8 share points since March to 26.8% in December 1993.
- Began reporting our retail share using the expanded Nielsen with 1993 Annual Report.

Price Reduction/Marlboro Friday

5. Is PM USA satisfied with the outcomes of the price reduction?

- Yes, broad scale Marlboro price promotion announced April 2, 1993, and list price reduction in August, reduced absolute prices to 1990 levels and closed the gap.
- Marlboro gained 4.8 Nielsen share points between March and December, and increased to a record high of 26.8% SOM.
- Other premium brand shares climbed to 9.2% in December.
- Discount category declined 3.8 points from March to 33.2% in December.
- Basic increased market share to 4.6%, best selling discount brand.

6. Does this mean your domestic tobacco business is completely turned around?

- We are satisfied with our progress to date.

7. Your 1993 earnings were down because of the price cuts in domestic tobacco. Will you increase prices this year to improve earnings?

- Will not discuss future pricing intentions.

2022991693

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

8. What is PM USA doing to make sure the same situation won't be repeated?

- Building brand equity.
- Managing premium/discount price gap.

9. What will you do if your competition raises their prices?

- Will not discuss future pricing intentions.

10. How has PM USA adjusted to the new environment since August to ensure future growth?

- Investing in our brand franchises with marketing programs.
- Restore and build equity and value to the consumer.
- Watching the price gap to ensure stability.
- Streamlined business processes.

11. Is PM USA's strategy to restore profitability quickly or to attain reasonable growth trends?

- Attain long-term growth.

12. What are PM USA's benchmarks for action?

- Steady long-term income growth.
- Share objectives and price positioning.

13. Tell us about your efforts to improve cigarette profitability.

- Grow volume.
- Holding price increases to levels that consumers can pay (inflation).
- Streamline organization processes.

14. What impact will cost cuts have on your product's availability?

- None.

2022691694

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

15. To what do you attribute the weakness in shipments in 1993?

- Wholesalers and retailers adjusted inventories downward after August price reduction.
- Since 4th quarter 1993, shipments accurately represent demand.

16. How great of an affect did inventory reduction by wholesalers and retailers have on PM USA performance.

- Inventory reduction for PM USA about 3.4 billion units (about 1.7% of total sales in 1993).
- The wholesale trade accounted for about 2.2 billion units and the rest was accounted for at retail.

17. What do you expect industry shipments to do this year?

- The industry has been declining since 1981.
- Industry will continue declining at an annual rate of 2% – 2.5%.

18. Won't lower prices induce teenagers to buy Marlboros?

- We have no evidence that it will.
- None of our research deals with people under the legal age who purchase cigarettes.
- None of our marketing activities are directed at people who are under 21.
- We proactively support legislation that makes smoking illegal for those who are under 18.
- We work with retailers to make sure they understand and obey the law ("It's The Law").

2022991695

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

19. Will Marlboro continue to grow?

- A stablilized price gap allows for growth.
- We continue to support Marlboro with a variety of marketing programs.

20. Do you have any estimates of what the outcome might have been on the stock price and the business if you had taken less precipitous action on April 2nd?

- It is not possible to estimate what our stock price would have been had we not embarked on our April 2nd strategy.

21. What would have happened if you had made none of the changes that you announced on April 2, 1993?

- We believe discount growth would have continued to accelerate to the detriment of Marlboro and our other premium brands.
- If trends from June 1992 through April 1993 had continued and we hadn't taken action on April 2, Marlboro's share would have fallen to 19%-20% by year-end. The discount category, had trends continued, would have increased to about 46% of the market.

22. What impact did the change in strategy announced on April 2, 1993 and the subsequent price reductions have on distributors? On retail accounts?

- Both the retail and wholesale trade adjusted inventories downward.
- Estimate total inventory corrections accounted for 23 to 26 billion units.
- Year end LIFO program in November 1993.

23. What was the price gap between premium and discount cigarettes before your announcement, and what is it now?

- In convenience stories, the price gap has been cut in half from 89% in March to about 43%.

2022991696

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

24. Is this the return of price flexibility? Is the price war over?

- Will not discuss pricing.

25. What will you do if Marlboro begins to lose share?

- We feel about Marlboro today as we did on April 2. It would be irresponsible for us to take sustained losses.
- That information would be competitive so I can't answer it.

Discount Brands

26. What are your pricing plans for the discount category?

- We cannot discuss pricing.

27. How will PM USA increase profitability at the low-end.

- Grow volume.
- Raise prices where possible.
- Reduce costs to improve discount brand margins.

28. Are there any significant changes occurring in the discount category? If so, what are they?

- Manufacturers are building brand equity by offering consumers more than just price in a product.
- Basic launched an advertising campaign in the 3rd quarter '93 and offered consumers value-added incentives with purchase.
- Distribution of private label brands is increasing.
- Some retailers now have their own cigarette brand.

29. How are your discount brands doing?

- PM USA 's share of the discount category grew 1.3 points in 1993.
- Basic is the #1 discount brand with a 4.6% share in December and the #3 brand in the industry behind Marlboro and Winston.

2022991697

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

30. What is the profitability of your discount brands?

- Discount brand profitability is lower than Marlboro and our other premium brands.
- [PM USA budgeted following net contribution margins for 1994]:

Marlboro.....$25.93	Basic.....$10.20
Total Discount.....$9.84	Private Label.....$7.69

31. Are you price promoting Basic right now because you are losing share in the discount category?

- Basic remains the #1 selling brand in the discount category and the #3 brand in the industry.
- Basic's share is down, but the entire discount category's share is down.

32. Are you considering new price points or a lower price point than Basic's?

- Will not comment on pricing.

33. Won't you have to raise your prices in the future to offset the adverse effects of higher excise taxes on volume?

- Will not comment on pricing.

34. Could you confirm the shift of funds from Basic's ad budget to Virginia Slims'? Do you think this will affect PM's ability to compete in the discount market?

- Not true. Virginia Slims has its own budget and plans, and Basic has its own budget and plans.

2022991698

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Private Label

35. What threat do private label brands pose to PM USA brands?

- Private label products grow when the economy is bad or when prices of brand name products are too high.
- Prior to August 1993, private label cigarette sales grew because the price difference between premium brands and low priced cigarettes was too big.
- Private labels grew to 9% of the industry in a short period of time.
- In December Nielsens, the private label segment was 7.1% share of market.
- Since price reduction, private label share declined and our branded products grew.

36. Is PM USA in the private label business?

- Yes, we participate in all segments.
- Valuable partnerships can be established with the trade through the private label business.

37. What does PM USA expect tobacco competitors to do in order to grow?

- I can't speculate as to the actions of our competitors.

Premium Brands

38. How are Marlboro and your other premium brands doing?

- Marlboro is America's and the world's largest-selling cigarette.
- Marlboro had a 26.8% share of the US market in December.
- Our other premium brands have reversed declining share trends and gained 0.7 share points to reach 9.2% share in December.

2022991699

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Marketing Promotions

39. Have costly programs like Marlboro Adventure Team been effective?

- Yes. Marlboro Adventure Team was the biggest consumer promotion in marketing history.
- An estimated 16.8 million smokers collected MAT miles.
- MAT was successful at increasing Marlboro's share. Reinforced brand loyalty.

40. You mentioned that PM USA operating income was down because of lower cigarette pricing and your "substantial marketing investment in Marlboro." How much did you spend on the Marlboro Adventure Team promotion? What were some of the other marketing expenditures?

How much was MAT?

- Will not discuss our marketing expenditures for competitive reasons.
- MAT promotion was perhaps the largest and most successful marketing program in PM's and consumer products history.
- Estimated 16.8 million smokers collected Marlboro Adventure Team Miles.
- Received over 4.6 million orders for MAT gear.

41. Did MAT add two million consumers to your database?

- We consider that information proprietary.

42. How many people are on your database?

- We consider that information proprietary.

2022991700

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

43. If MAT was successful, why are you ending it? What is the new gear continuity program that you are offering consumers?

- MAT successful was because it was new and different. Promotion, by its nature, is short-term and pulsed.
- Starting March, we will offer a thematically different continuity program, Marlboro Country Store.

44. Gary Black estimates that PM's marketing budget is $1.1 billion, $500 million lower than last year. Can you confirm these figures? How will the budget cuts affect promotion of PM brands?

- Do not comment on budgets or financial issues.

What are the true numbers?

45. What's the news about your other premium cigarette brands — new campaigns, new promotions, new products, new price initiatives? Brand or line extension contractions, expansions?

- Merit launched a new advertising campaign "Yes I can!" in the 4th quarter of 1993 to reinforce its position as a lower tar cigarette with premium taste.
- Parliament revised its advertising in the Northeast and instituted local events to support the brand among its young adult consumers.
- Benson & Hedges launched a new campaign reinforcing its historical position as the premium quality 100mm cigarette.
- Virginia Slims advertising has been updated to appeal to today's women.

2022891701

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Product Development

46. Could you tell us more about Marlboro Express, the concept of roll-your-own cigarettes, or loose cigarettes in carton? Are these products in development?

- Marlboro Express: Some public speculation about this concept beyond what appeared in BW. We haven't commented on it thus far and I won't start now.
- Roll your own: We don't comment on speculation.
- Loose cigarettes in carton: We don't comment on speculation.

Retail Masters Program

47. What is the Retail Masters Program and how does it work?

- Retail Masters is a program that provides retailers with monetary incentives for managing the cigarette category using category management principles defined as follows:
  - Allocating space according to share.
  - Pack emphasis over cartons.
  - Managing premium vs. discount.
  - Promoting the category.
- PM USA brands perform significantly better in Retail Masters accounts on both a volume and share basis. The discount category as a whole has underperformed in Retail Masters accounts.
- Optimize the visibility and share of PM USA brands in the retail environment.
- Maintain our brands' availability and leadership.
- Program revised in 1994 to maintain consistency with the changes in the marketplace.

2022291702

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Inventory

48. What were your domestic trade inventories at year-end? How does that compare with trade inventories at the end of 1992?

- Year end 1993 wholesale inventory levels were as little as 2—3 days up to few weeks depending on the customer.
- Year end 1992, they were at 3-4 weeks.

49. What will be your target inventory levels for 1994?

- We do not set targets for inventory levels.
- Maintain appropriate levels of inventory of our products to avoid out of stock situations at retail.

Plant Tour

50. Why did you eliminate the Plant Tour Program?

- We've revised the tour program, making it a more focused and effective tool, while reducing costs and making the operation more efficient.
- We eliminated the public plant tour program.
- We created the expanded business plant tour program to build relations between PM and a wide range of customers, suppliers, public officials, news media, farmers, international business, government officials, and similar groups.

2022691703

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Single Source Vendor Program

51. The PM Single Source Vendor Program is costing small vendors in the Richmond area thousands of dollars worth of business. Can you explain the rationale behind moving to large single source vendors, at the expense of small local vendors?

- More and more corporations are developing partnership arrangements with their vendors in an effort to reduce cycle time and costs while ensuring a high level of quality.
- A single source vendor system does not, however, necessarily hurt small businesses.
- Business that is shifted to fewer, larger vendors means that those vendors will be purchasing more goods and services, and will be creating more jobs to provide us with the goods and services we need. In many instances, large vendors purchase their goods from smaller companies.
- While there may be some short-term disruption, long-term, as our business becomes more efficient and profitable, we buy more goods and services, thereby creating a positive economic climate in the communities in which we operate.

2022991704

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Federal Price Supports

52. Why does PM USA support the federal tobacco price support program?

- The tobacco price support program assures a steady supply of tobacco at relatively stable prices.
- Producers and purchasers share in the costs of the tobacco program so the program has no net cost to the taxpayer (except for routine federal administrative costs).

(Federal tobacco program: Federal government assigns certain levels of price support to each grade of tobacco at auction, i.e. a minimum price farmers will receive per pound of certain types of tobacco. The program provides farmers a stable and reasonable rate of return for their product while purchasers are able to make more accurate projections of their costs for the tobacco they buy.)

Smoking Accommodation

53. What is PM's position on smoking in restaurants, offices and other public places in light of the EPA's risk assessment?

- Nearly 1/3 of Americans smoke. 23%
- We support accommodation of smokers and non-smokers in public places and in the workplace.
- Nearly 66% of respondents to a national survey favor accommodation of smokers and non-smokers in restaurants and other public places. — Source? Date of poll?

?? support of 250MM? (Mean adult Americans?)

2022991705

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

54. What are you doing to address the increasing number of smoking bans in the U.S.?

- Launched The Accommodation Program (provides hotel and restaurant owners, store owners, shopping mall management and other decision makers with a reasonable alternative to smoking bans. Successfully field-tested in Pittsburgh, the program is now being implemented nationally).
- Inform activist smokers through "Smokers Advocate" and "Smokers Caucus" newsletters.
- Active government affairs field staff.

55. What is the public perception of smoking today? Has it improved or gotten worse?

- Bans and sanctions have increased.
- Smokers are more self-conscious about lighting up.
- Anti-smokers feel bolder in attempting to make other peoples' decisions for them.

56. What is PM doing to prevent discrimination against smokers?

- Support passage of privacy legislation at the state level.
- Today, 29 states and the District of Columbia have laws which prevent employers from discriminating against smokers who smoke away from the workplace.

2022391706

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

57. A number of State Attorneys General have been calling for smoking bans in fast food restaurants, which are heavily frequented by minors. What is PM's response to these proposals?

- PM doesn't market cigarettes to minors and doesn't want them to smoke, but we oppose restrictions that unnecessarily limit the freedom of adult smokers.
- In restaurants, we favor the accommodation of smokers and non-smokers through designated smoking and non-smoking areas.
- Research shows that smoking and non-smoking areas do a good job of minimizing the exposure. Several studies have shown that a non-smoker would have to spend hundreds of hours in the non-smoking section of a restaurant to be exposed to the nicotine equivalent of one cigarette.

58. Why are you building smoking lounges in airports? Are you going to be building more? Are you building them in cooperation with other tobacco companies?

- We are not building smoking lounges.
- In Atlanta, there was a unique opportunity whereby smokers could be accommodated at the airport in lounges (with separate exhaust systems) that the city would build if we helped fund them.
- We funded it with dollars normally used to pay for advertising space in various locations around the airport.
- In Denver, we bought the advertising rights at a restaurant in the airport (Pour le France). They are using the proceeds to build two smoking lounges.

  [Note: There will be an official announcement of this arrangement in March, and more information/language will be available then.]

2022991707

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

- In Detroit, we matched up a ventilation filter manufacturer with Host/Marriott, which operates a restaurant/bar at the airport. Those two parties, independently of PM, have agreed to a deal where the filter manufacturer is providing its filters free to Host/Marriott on a trial/demonstration basis, and the airport has agreed to allow smoking in the bar with the additional filters. There is no PM involvement in this arrangement. We simply introduced the parties to each other.

ASSIST Program

59. What is the status of the ASSIST program? Are ASSIST funds being used for lobbying and if so, what are we doing about it?

- Project ASSIST is a federal program established three years ago designed to reduce the incidence of smoking in 17 targeted states. A total of $115 million is being spent over seven years on the project, with an additional $35 million contributed by the American Cancer Society. Three years have been devoted to research and preparation; the next four will feature implementation.
- ASSIST funds are distributed to the state boards of health which then disburse the funds to local anti-smoking groups that apply for support through project proposals.
- There has been some suggestion that ASSIST funds are being used for lobbying purposes, which would violate federal and, potentially, state regulations on the expenditures of federal funds. We are looking carefully at this matter.

2022291708

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Scientific

60. Is PM USA investigating alternative uses of tobacco?

- Research and development efforts are confidential, we don't comment on them. Are we?

61. There are some studies indicating that nicotine is beneficial in preventing or ameliorating the effects of Alzheimer's disease. Is PM doing any research in this area?

- We are funding research into this issue at Case Western Reserve University in Cleveland, Ohio.

62. The Centers for Disease Control and Prevention reported last September that every cigarette a smoker smokes takes seven minutes off his or her life. Is this true?

- Scientific research does not support that claim.

63. How do you respond to the Centers for Disease Control and Prevention which says that the tobacco industry needs to attract more than one million new smokers per year to replace those who have died or broken their addiction?

- About 30,000 adult smokers switch brands every day. That amounts to about $10 billion worth of business a year.
- The number of adult smokers in this country has been dropping by 2% to 3% each year. Still, more than 50 million adults smoke in this country.
- At the end of 1992, PM USA had a 42.3% share of the overall US market and 48.8% of the premium segment.
- At the end of 1993, according to the Nielsen share figures, we had more than 43.6% of the overall US market and more than 51.3% of the premium segment.

2022991709

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

64. What is PM USA doing to produce a commercially marketable "fire safe" cigarette? What do you think our competitors will do?

- In 1990, Congress, instructed the Consumer Protection Safety Commission (CPSC) to provide a report on whether a commercially feasible "fire-safe" cigarette could be developed.
- PM USA, as well as other members of the industry, participated in the Technical Advisory Group to the CPSC that did the feasibility study. CPSC has submitted its report to Congress.
- Our R&D dept. is continuing to work on the issue of reducing the ignition propensity of cigarettes.
- Don't know what competitors will do.

NSA

65. What is the National Smokers Alliance?

- The National Smokers Alliance (NSA) is a national non-profit organization made up of a broad section of American citizens who support smokers' rights.
- NSA members are politically active adults who support freedom of choice.
- Prevent discrimination of smokers.

2022291710

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

66. Was NSA created by and is it a part of PM?

- No. It is a national consumer group with the goal to defend and protect smokers' rights, monitor legislative activity, provide information, and represent smokers with the media and elected officials.
- Coalition development experts (Burson-Marsteller) set up the organization to meet our consumers' need to have a smokers' rights organization.
- Barbara Rewey, media coordinator at the NSA. (703) 684-4842

67. How much has PM spent on NSA?

- We have provided the organization with a development grant. ($5.5 million, in 1993 and 1994.)

2022991711

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

New Business

68. With the recent announced acquisitions, it looks like PM is shifting its manufacturing away from the U.S. to other countries. Is this true?

- No. We prefer to export from the U.S.
- Local manufacturing is necessary in some countries, i.e., Turkey.
- No sudden shifting has occurred. PMI has been operating profitably in Eastern Europe for over 20 years. The long-standing relationships we have built are one reason for our success in winning international bidding opportunities created by governments actively seeking foreign investment.

69. The Czech government lifted its monopoly laws allowing foreign competitors into the market. Do you expect this to affect our business there dramatically?

- Our established presence, brand recognition and distribution give us competitive advantage.

2022691712

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

70. Has the political instability in the former Soviet Union affected PM's business there?

- We view the events as a strong move towards democracy and a free market economy in the long-term.
- With our start-up in Samara (June 1992), we were the first joint venture in the Russian Republic to produce an international brand.
- In St. Petersburg, a 1 billion unit make/pack facility will be operational in early 1994. We also have plans for a separate 10 billion unit greenfield site.
- In 1993, PMI invested in Lithuania and Kazakhstan.
- We acquired 49% of the Krasnodar Tobacco Factory in Russia in 1993.
- To date (2/14/94) our total investment in Russia is $12 million.

Pricing

71. Is the Marlboro Friday announcement having any affect on PM's International business? No

- PMI again delivered record results. In 1993 we sold over 459 billion cigarettes, 9% ahead of 1992.
- In 1993, PMI increased market share in 18 of its top 20 markets.

72. Has Marlboro's image been "tarnished" internationally as a result of "Marlboro Friday?"

- No. Marlboro remains the best selling cigarette in the world, posting an almost 7 billion unit increase from the year before.

2022991713

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

73. "Marlboro Friday" indicated that the price gap in the U.S. was too large. Is Marlboro's price gap under review globally?

- Price gaps are managed on a market-by-market basis.
- Ferociously defending the premium segment in all markets.
- Volume continues to grow—Marlboro's international volume increased over 8 billion units in 1993.

74. Given PM's experience in the U.S., will PM try to introduce "discount brands" into the international arena?

- Price tiers in the cigarette markets outside the U.S. have existed for decades. We have brands in numerous tiers.
- Multiple price categories emerged in the U.S. around 10 years ago.
- Generics, or house brands, are not significant in international markets.
- We possess a wide range of proven brands providing us flexibility to compete in multiple price segments.

75. Given that PMI's markets' margins are slimmer than in the U.S., how does PMI intend to expand profitability?

- Earnings grow in all our regions primarily through volume growth. Growing brand franchise and aggressively reduced the cost of doing business in our established markets (primarily OECD).
- In other markets, increasing volume through organic growth and strategic acquisitions.

Business Strategy

76. Geoffrey Bible was named the head of Worldwide Tobacco. Will PM follow BAT's integration of its USA and International businesses?

- At this time, the 2 operating divisions are not combined.
- Our organization is lean and effective at this time.

2022291714

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

77. Hong Kong is your regional headquarters in Asia. Will this continue after 1997? Will Hong Kong play a key role in our further entry into mainland China?

- Established a task force to determine optimum structure of our business.
- This includes a review of our distribution arrangements.

Fiscal Policy

78. Has smuggling increased in Canada as a result of the higher Canadian cigarette taxes?

- Due to the reported increase in contraband activity, the Canadian government lowered federal excise taxes on cigarettes. This move acknowledges what we have been contending all along; the only thing that results from exorbitantly high increases in excise taxes are windfall profits for smugglers.

Marketing

79. I read in the paper that PM was fined in Hungary for illegal marketing practices. Was this the case, and if so, why?

- PM was fined as were several other companies. We have decided to appeal the case in which the government's "competition bureau" ruled that certain PM advertisements in newspapers were "anti-competitive."
- In most of Central/Eastern Europe, existing legislation governing advertising needs to be adapted to the realities of a free-market economy.

2022291715

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Smoking Restrictions

80. With the increase in marketing and public smoking restrictions, is PMI in danger of losing some of its business?

- Not necessarily. PM has successfully grown in markets where advertising is severely restricted (Italy, since 1962 and Finland, since 1978).
- Cigarette advertising has been virtually non-existent in Central and Eastern Europe, where we have been doing business for over 20 years.
- PM enjoyed growth in 1993 in most major markets. Total volume was up 9% in 1993.
- Public and workplace smoking restrictions could affect our sales.
- [IARC (International Agency for Research on Cancer): Currently, there is a case-control study which has been started in 11 collaborating centers in Europe to investigate the relationship between exposure to environment tobacco smoke and to other environmental risk factors (occupational exposures, air pollution, diet) and the risk of lung cancer in subjects who have never smoked tobacco. Results are not expected until early 1995, however leaks are anticipated in 1994.]

2022691716

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Advocacy Issues

81. The "anti-industry" forces have appeared to be "gaining steam" worldwide. Has this affected your international business as it has in the U.S.

- These groups have expanded their efforts.
- Our business continues to grow.
- A good example is Australia, the most extreme anti-smoking environment in the world. Our brand Longbeach is now the No. 1 brand in the market.
- PMI enjoyed growth in 1993 in most major markets. Total volume was up 9% in 1993.

Miscellaneous

82. There were rumors of Marlboro cigarettes being radioactive in Italy. Was this true?

- No, it is not true.
- The Italian Health ministry admitted that these were, in fact, rumors and that there were no facts to substantiate these claims.

83. What is the company's position on its "Marley" trademark in France? Is the name being used in anticipation of marijuana legalization?

- PM has registered the trademark "Marley" in France.
- We chose the name "Marley" for competitive reasons.
- The name was not chosen with marijuana legalization in mind.
- We do not feel that Bob Marley Music Inc.'s exclusive claim of the name "Marley" across varied product lines is a valid one.
- It is our opinion that the French laws will not support the claims by Bob Marley Music Inc.

2022991717

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991718

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991719

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

ACQUISITIONS & DIVESTITURES

Rev. 2/15

Beer

1. Does your recent acquisition of and involvement in Molson and FEMSA signal an increased interest in the international beer market?

   - Yes, our 20% share of Molson Breweries, allows us to increase global presence.
   - Our 7.9% share of FEMSA helps us share in the success of one of Mexico's largest consumer goods companies with holdings in brewing (Dos Equis, Carta Blanca, Tecate, and Superior), Coca-Cola bottling, and convenience stores.
   - Miller Genuine Draft introduced in Puerto Rico in September 1992, and has captured more than 30% of the Puerto Rico beer market.
   - MGD was also successfully introduced in the United Kingdom and Ireland.
   - Miller is the first foreign brewer to have its beer brewed in Beijing, through a licensing agreement with Shuang He Sheng Five Star brewery.
   - Our products are marketed in more than 70 countries, through exporting, exclusive partnerships, and joint ventures.

2022991720

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Food

2. What is the role of acquisitions and divestitures at Kraft General Foods?

- We use acquisitions and divestitures to improve the performance in three ways:
  - Enhance existing businesses and improve our overall growth prospects;
  - Enter new categories where there are clear financial benefits and a strategic rationale;
  - Divest businesses which either under perform financially, or which are of limited strategic importance.

3. What acquisitions and divestitures took place during 1993?

- We acquired:
  - Nabisco's North American ready to eat cereal business
  - Nabob coffee business in Canada
- We divested in the US:
  - Ice cream and frozen vegetables

4. Why did you sell the ice cream business?

- Only the *super premium ice cream* category achieves decent returns.
- Unilever saw more value in the business than did we – and made us an excellent offer.

2022691721

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

5. Why did you sell Birds Eye?

- The frozen vegetable business is unattractive for several reasons:
  - Commodity orientation;
  - It is highly fragmented with over 200 competitors who compete mainly on price;
  - It is a low margin business – industry profit margins have averaged 5% during the past five years; and
  - It is volatile, due to weather impact on crop sizes and pricing.

6. Why did you buy Nabob?

- Nabob is a perfect fit with our existing roast and ground coffee business in Canada.
- Gives us category leadership.
- Nabob is strong in Western Canada where our brands are weak, and, conversely, Nabob is weak in Eastern Canada where our brands are strong.
- Nabob possesses an excellent Swiss Water method of decaffeination which is a major source of high quality decaffeinated coffee in North America.

7. Do you think the climate is becoming more hostile to mergers and acquisitions overseas?

- No, but as we focus our acquisition activity on our core businesses, we will encounter more legal and public interest scrutiny due to our size and market share.

2022991722

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Tobacco

8. How is our tobacco business doing in Central/Eastern Europe. Will all these investments pay off?

- PM is profitable in Central and Eastern Europe. Our 20 year presence in this region has given us an exceptional understanding of the consumers, politics, and economics of the region.
- The Czech & Slovak Republics: Almost $400 million was invested in Tabak. Our investment is already paying off. On an operating basis, Tabak is already profitable. Marlboro is the largest international brand at the premium end of the market. Tabak also has 3 of the top 4 brands on the market (Petra, Start, and Sparta). These have been extended to filter, lights, and other variants. Tabak's market share in the Czech Republics is over 80%.
- Hungary: The performance of our affiliate EGRI is ahead of the original acquisition plan and performing profitability.
- Lithuania: Our acquisition of the Klaipeda State Tobacco Company was completed in June of 1993.
- St. Petersburg: Two phases; First, a 1 billion unit make-pack facility which will be operational in early 1994. Second, a 10 billion unit Greenfield site, still to be determined.
- Krasnodar: In the fall of 1993, PM acquired a 49% share holding in the Krasnodar Tobacco Factory. The acquisition is in its final stages of completion.

(Continued)

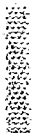
2022991723

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

- Kazakhstan: The agreement was closed at the end of 1993 with the Kazakh authorities of the Almaty Tobacco Factory. We now own IK% of shares.
- Exports: We are growing export volume in Bulgaria, Romania, and the former Yugoslavia, where the largest portion of the market is closed due to UN sanctions.
- Poland: We are pursuing the acquisition of ZPT Krakow, our licensee.

2022991724

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000



2022991725

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Marketing Practices

1. How does the company respond to efforts to reduce product placement in movies and place warnings at the beginning of films?

   - The FTC denied to propose rule making in this area, thus rejecting the petition by anti-alcohol groups.
   - Our company responds to requests from movie companies which desire to have authentic products depicted in their movies as a natural part of a scene.
   - What we pay for is to have our brand identified instead of someone else's.
   - We do not authorize product placements for tobacco.

Ethnic Marketing

2. Will PM contribute to the "rebuilding" of South Central L.A. and the relocation of African-American alcohol beverage businesses throughout the country?

   - **Confidential**: CEOs of A-B, Coors, and Miller received requests from Mayor Bradley and the South Central L.A. task force of African- and Asian-Americans to participate in the rebuilding of this area of the city, and the reallotting of licensed beverage stores throughout the country. To our understanding, no brewer responded in the affirmative on this.

2022991726

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Advertising Deductibility

3. PM spends millions of dollars on advertising annually. What is our position on legislative proposals that seek to eliminate or reduce the tax deductibility of advertising costs?

- We oppose such proposals.
- Advertising expenses should be fully deductible as part of the cost of sales, and all advertisers should be treated equally and fairly under the tax code.
- Raises significant First Amendment issues.

Television Violence

4. There has been an increasing debate in the role of advertisers in their sponsorship of television programming that contains violence or exposes children to gratuitous examples of violence. What is PM's policy?

- Our two operating companies that advertise on television place advertisements that are aimed towards our intended consumers.
- Our advertising placements are based primarily upon demographic data provided by independent research sources. This information is used to advertise our products in the time periods where our consumers are is most likely to watch specific programming.
- Review all national programs on major broadcast networks to avoid placing ads on programs which we understand may depict gratuitous, exploitative, or excessive violence.

5. Is there a need for Congress to pass legislation that regulates the responsibilities of advertisers in the area of TV violence?

- PM does not believe this type of legislation is warranted.
- Congress should encourage the broadcast networks and the program producers to address problems in this area.

2022991727

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Beer

6. What is Miller's basic philosophy regarding advertising. How do you determine your message, define a market, and choose a medium?

- We advertise to encourage adult beer drinkers to choose our brands of beer.
- We advertise to promote responsible consumption of our products. ("Think When You Drink")
- We use a variety of advertising media to reach a broad range of adult beer drinkers.

7. Is it a company's responsibility to be sensitive to community issues when designing an advertising strategy?

- We adhere to voluntary industry advertising guidelines.
- We have established our own high standards for marketing program content.

8. What is your response to critics who want to dictate how a company advertises/markets its products such as those who want to prevent alcohol companies from saturating minority communities with their advertisements?

- We will continue to develop meaningful information campaigns and educational programs, to encourage responsible consumption by adult beer drinkers.

Underage

9. How do you respond to criticisms that Miller's commercials appeal to underage people?

- Miller's company policy requires that the actors in our commercials be at least 25 years old.

2022291728

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Big Lawyer Roundup

10. What is PM's comment regarding the American Bar Association's reaction to Miller Lite's "Big Lawyer Roundup" commercial?

- Not intended to misrepresent or offend any particular group or individual.
- Humorously reinforces that if you can combine great taste and less filling, you can combine anything.
- We've combined golf and football in *Full Contact Golf*, hockey and a beauty pageant in *Miss Perfect Face-off*, sumo wresting and high diving in *Sumo High Dive*, luge racing and bowling in *Luge Bowling*, and a dog show and drag racing in *Wiener Dog Winternationals*.

11. How do you define target marketing? Why do consumer products companies use this marketing technique?

- Market segmentation directs relevant messages to key audiences.
- A marketing tool that has been used by consumer products companies for many years.

2022991729

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

12. What about proposals to restrict advertising?

- Beer has been part of civilization for 6,000 years, and it's common knowledge that there are risks and consequences from abusive consumption. We have a multi-faceted alcohol awareness and education program to remind consumers of the risks and to promote responsible drinking.
- Miller markets appropriately and responsibly to adult beer drinkers.
- Studies conducted by government and independent researchers conclude advertising affects brand performance, not consumption or abuse. – Sources?
- Warnings are the least effective way to fight abuse; and education (through schools, family, and law enforcement) is the most effective. (1990 Roper Poll)

13. Are you sensitive to the criticism by urban community leaders that there is too much alcohol advertising in inner cities? Will the company scale back billboard advertising in these communities?

- Billboard advertising represents less than 1% of the total industry's advertising efforts.

2022991730

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Food — Children's Advertising

14. Why advertise on children's shows – children can't decide what food is good for them?

- A large majority of children do know the basic food groups and are aware of general nutritional differences among foods. (Recent survey.)
- The foods we advertise are not "bad" for you. Cereals contain many vitamins and minerals; Kool-Aid is fortified with Vitamin C.

Food — KGFI

15. How much does KGFI spend in marketing each year, as a percentage of revenues?

- $750 million, (Advertising $566, Consumer $182)
- 8% of revenues.

16. What is KGFI's position in regard to advertising to children, especially with its large portfolio of confectionery products?

- When our advertising is directed to children, our policy is always to consider the special characteristics of this audience in terms of understanding and behavior.

2022991731

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Tobacco

PM USA

17. Why should PM or any other tobacco company be permitted to continue to advertise?

- Tobacco is a legal product, and truthful speech about tobacco is protected by the Constitution of the United States.
- PM advertises its products to adult consumers to persuade them to try and switch to our brands.
- Free speech.

18. Isn't it true that you target your advertising and promotion to minors?

- No.
- We have a stringent company code requiring that all models in our advertising be over 25 and look it.
- We never pay celebrities or sports figures to endorse cigarettes in our advertising.
- More than 25 years ago, we ceased advertising in college publications or in any media whose primary audiences is under 18.
- We encourage state governments to establish 18 as the minimum age for the legal purchase of tobacco products.

(Continued)

2022691732

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

- Tobacco Institute's "It's the Law" campaign educates retailers regarding their states' laws governing sales to minors and offers information on keeping cigarettes out of the hands of children.
- We aggressively pursue all cases of logo, trademark and copyright infringement brought to our attention.
- We manufacture branded promotional clothing items in adult sizes only, and we require anyone receiving branded promotional items through the mail to sign a certificate affirming the recipient is a current smoker at least 21 years of age.

19. Does PM "target" women and minorities with advertising and promotion activities?

- We communicate with all adult smokers, which include all segments of the US adult population.

20. Why does PM USA place billboards advertising its cigarettes in minority neighborhoods?

- A variety of media, including billboard advertising.
- Local zoning laws determine where billboards may be placed, and PM complies with all such laws.

21. Should Congress ban the use of cartoon characters in tobacco ads?

- PM USA does not use cartoon characters in our ads.
- Such a ban raises serious First Amendment issues.

2022691733

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

22. Many anti-smoking groups argue that tobacco advertising influences children to smoke. In considering this statement, why shouldn't the federal government restrict the tax deductibility of tobacco advertising and thus end the "subsidy" of marketing products to our youth?

- We advertise to maintain customer loyalty.
- To encourage smokers of other companies' products to switch to our products.
- By eliminating the tax deductibility, the government would be influencing consumer choice by restricting the flow of truthful information about a lawful product.
- Such use of the tax code raises serious First Amendment issues.

23. Why shouldn't health warnings be required whenever a tobacco brand or logo appears on non-cigarette products such as hats or T-shirts?

- Existing warning label requirement has been successful.
- Extension to non-tobacco products is unnecessary.
- Virtually everyone is aware of the information contained in the warnings on packages and in advertisements.

24. Where is the heaviest pressure for advertising bans or restrictions?

- Local laws restricting cigarette advertising.
- Outdoor and transportation advertising.

2022291734

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

Voluntary Code on Advertising

25. The tobacco industry has a Voluntary Code on Advertising and Promotion. Does PM USA adhere to the Code?

- Yes.
- A comprehensive internal review and pre-approval process for all tobacco advertising and promotions.

26. If PM USA complies with the Code, why not support federal legislation mandating compliance with the Code?

- PM USA complies with the Code and therefore believes that no legislative action is necessary.

27. PM USA launched the Marlboro Adventure Team promotional campaign, which appears to involve "rigorous physical activity." Do you feel that this campaign complies with the Voluntary Code's prohibition against the use of sports figures or persons smoking while engaging in physical activity?

- In conformance with the Code, the campaign did not use well-known athletes.
- It did not show anyone smoking as they participate in these activities.
- The program specifically stated that participants must be 21 years of age or older and be smokers.

28. If tobacco advertising does not seek to attract new customers, why does PM USA spend any money on advertising and promotion?

- To maintain customer loyalty.
- To encourage smokers of other companies' products to switch to our products.

2022991735

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

PM International

29. We hear a lot about the marketing of tobacco products overseas. What "rules" govern our marketing of products in foreign countries?

- PM abides by the laws of the countries in which we are importing our products.
- Often negotiated trade agreements prescribe the "rules" governing our entry into a market.

30. I understand that there is a threat to Marlboro sponsorship Formula 1 racing. What will happen if we lose this?

- As far as we are concerned, there is no threat to our sponsorship.
- It is continuing as planned.

31. Isn't it true that PM is marketing to youth and children in other countries, like China? Why does PM use double standards when marketing to different countries?

- No. We adhere strictly to our own marketing code which prevents such marketing and establishes the means for responsible marketing.
- With the Chinese monopoly controlling an approximate 99% share, our goal is to have a greater share of this market.
- There is no "special customization" of our basic marketing strategies to target China.

32. With the increase in marketing restrictions around the world, what is PM doing to ensure that brand information/communication is passed on to the consumer? (i.e., What is PM doing to maintain its brand value around the world?)

- We conduct our business in strict compliance with all the laws and regulations established by the governments in the areas of the world in which we do business.

2022991736

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991737

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

COMMUNICATIONS

Rev. 2/7

1. Why is PM not more aggressive in defending itself from adverse publicity?
   - In some cases, no comments keeps the story from becoming bigger.
   - There are behind-the-scenes activities with various publications and broadcast outlets. We recently met with the publisher and top editorial members of The New York Times, to discuss overall PM operations.
   - PM has a program involving ongoing outreach between reporters and senior executives.
   - Prior to every major announcement PM holds media briefings with leading newspapers and magazines.
   - The communications departments of all PM operating units provide up to date information to all inquiring reporters.

2. Is there anything we can do about the antagonism of the media towards our industry?
   - Maintain relations with the media and tell our side of the story.

3. What influence does PM have on matters of public policy or social issues?
   - Responsible companies should make themselves heard on public policy issues.
   - We communicate our points of view, but we don't control the results.

4. Why was the press coverage extra negative and, in a large part, wrong on the April 2, 1993 announcement?
   - A number of journalists misunderstood the April 2 announcement.
   - Emotional reaction.

2022291738

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

5. The restructuring announcement on November 24, 1993 seemed to only emphasize layoffs and after tax charge against earnings. How come there wasn't a discussion of increasing profits by taking costs out of the business?

- The announcement did mention that the restructuring plan:
  - Significantly reduces our cost structure.
  - Improves future growth, profitability, and cash flow.
  - Is designed to generate after-tax annual savings of about $600 million by 1997.
  - Is expected to provide the company a payback period of around three years.

6. You elected a new director to the Board (Stephen Wolf) but we saw nothing in the newspaper.

- The announcement of Steve's election to the Board did receive press coverage, but it came on the same day as our restructuring announcement.

2022991739

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

2022991740

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

CONTRIBUTIONS

Rev. 2/7

PHIL-PAC

1. How much money did the Philip Morris Political Action Committee (PHIL-PAC) raise in 1993?
   - In 1993, raised $481,213.58. Carried over $49,419.40 from 1992.
   - In 1993, contributed $467,362.24 including contributions to 254 candidates.
   - In 1992, contributed $548,059.33 including contributions to 280 candidates for federal office.

2. How many Democratic and Republican candidates did PHIL-PAC support in 1993?
   - 141 Democrats ($173,673). 113 Republicans ($119,449).
   - Remaining funds to federal and state committees, state and local candidates and operating expenses.

3. Does PHIL-PAC support candidates for presidential office?
   - No.

4. What was the cost for administration of PHIL-PAC in 1993?
   - $118,871 for administrative expenses and solicitations.
   - $116,581 for salaries and fringe benefits. (Charged to Corporate Affairs budget, not to PAC.)
   - Relative to receipts, above sums are low.
   - Average PAC's come in around $1 in receipts for $1 of expense.
   - We raise $1 for every 49 cents spent.
   - These expenses do not come out of personal contributions.

2022991741

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

5. Did PHIL-PAC contribute to Senator Jesse Helms in 1993?

- No.

KGF PAC

6. How much did KGF's PAC contribute to Republicans and Democrats in 1993?

- Total of $16,750, $11,750 to Republicans, $5,000 to Democrats.
- Contributed $8,500 to other committees.

Philanthropic Contributions

7. What were our philanthropic contributions in 1993?

- $55,500,000.

8. What percentage of income does that represent?

- 0.78% of domestic pre-tax income
- 0.57% of worldwide pre-tax income.

9. Does the company use the contributions program to target Black organizations in an effort 'buy' their support?

- No. In the 1930s, PM was among the first companies to hire African Americans for other than "menial" jobs.
- In the 1950s, we began the process of integration of the unions in our southern plants.
- Desegregation of our facilities occurred before the law required it and before other corporations did.
- Financial support for Black organizations dates back to 1944, when senior PM executives supported the United Negro College Fund.

2022991742

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

- We support the National Urban League. (Contributions to it and other organizations were made at a time when the company was in last place in our industry and could least afford to provide this financial support. Now, as one of the largest corporations in America, we are likewise one of the most active contributors to community interests.)

10. Why does PM make substantial contributions to the African-American and Hispanic communities?

    - PM markets to a diverse universe of consumers.
    - The company supports cultural, educational, social, and health programs that benefit the entire community of our consumers.

11. How much did the company expend in support of AIDS organizations for 1993?

    - Contributed $868,660.
    - Since 1990, the company has committed $1.0 million each year to support efforts within these AIDS categories:
        - Research
        - Education/Prevention
        - Care

12. Were contributions made in 1993 to organizations with which members of the Board of Directors are affiliated?

    - Yes. (See attached list at end of this section.)

2022691743

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

13. How much did the company expend on the arts in 1993, exclusive of charitable contributions to arts programs approved by the Corporate Contributions Policy Committee?

- Total Cultural Affairs (includes salaries, fringes & project expenses) $3,133,962
- Total Cultural Advertising $2,877,349
- Total Contributions to the Arts $13,317,788

14. Which organizations were the recipients of the largest charitable contribution grant in 1993?

EDUCATION

Foundation for Independent Higher Education (FIHE) **$500,000**
(Teacher Training for Minorities)

HEALTH AND WELFARE

Food Research and Action Center (FRAC) **$1,050,000/3 years**
To expand the Campaign to End Childhood Hunger
(1st payment of $250,000 paid in 1993)

THE ARTS

Brooklyn Academy of Music **$1,500,000/3 years**
To establish the PM Next Wave Forward Fund
(1st payment of $500,000 paid in 1993)

CONSERVATION AND ENVIRONMENT

Federal Focus, Inc. **$200,000**
To collect and analyze data relating to the assessment of costs/benefits of environmental regulations: make information available to public and government officials; develop recommendations.

CIVIC AND COMMUNITY

Citizens for a Sound Economy Foundation **$300,000**
Renewal of general support

MISCELLANEOUS

ETV Endowment of South Carolina **$180,000**
"Technopolitics" series

2022991744

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

15. Has there been an increase in contributions to organizations involving minorities?

- PM contributes to a wide spectrum of charitable organizations and programs intended to help women, African-Americans, Hispanics and other classes.
- 1993 contributions to programs intended to help protected classes were:

Physically Challenged	$356,629
Drug/Alcohol	336,990
Elderly	400,280
Minorities	4,371,335
Women	409,466
Veterans	28,500
Total	$5,903,200

- 1993 contributions to minority organizations were $5,142,746.

(Total contributions to minority organizations was $11,033,544 in 1992 and $4,708,328 in 1991.)

16. How much did the company expend on charitable contributions in other areas in 1993?

	($ in millions)
The Arts	$13.6
Civic & Community	5.2
Conservation & Environment	1.2
Education	15.3
Health & Welfare	13.0
Miscellaneous	0.9
Total Grants	$49.2
Matching Gifts	6.3
Total 1993	$55.5

2022691745

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

17. Has PM contributed to "Project Awareness"?

- In 1993, we made a $125,000 contribution representing the 3rd and final payment of a 3-year $375,0000 pledge to the Chesterfield County Public Schools.

18. Has the company contributed to disaster relief appeals?

- Yes. The company has an active policy of contributing to disaster relief appeals both domestically and internationally, and budgeted $700,000 in 1993.
- Company contributed $170,000 to disaster relief appeals in addition to product donations (i.e. water shipments) in 1993:

American National Red Cross - Jefferson City, MO	$50,000
American National Red Cross - Sioux Falls, SD	25,000
American National Red Cross - Adams County Chapter Quincy, IL	5,000
American National Red Cross - Loudon County Chapter Lenoir City, TN	5,000
American National Red Cross - Grand Folks, ND	10,000
American National Red Cross - Milwaukee, WI	15,000
City of Petersburg Virginia Tornado Relief Fund Petersburg, VA	25,000
Caritas Relief for Croatia - New York, NY	15,000
Iowa Flood Relief Fund - Des Moines, IA	20,000
TOTAL	**$170,000**

2022991746

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

United Way

19. Have there been any more repercussions from the United Way scandal?

- The new president, Elaine Chao, has implemented a number of policy changes that have eliminated several abuses.
- She has cut the budget by 10%.

20. What percentage of our corporate gift goes to the United Way's member agencies and what percentage goes to administrative costs?

- 84% goes to member agencies.
- 16% goes to administrative costs.

21. Do our dollars go to all the organizations or does the corporation as a whole designate that the dollars not go to The American Cancer Society, American Lung Association, or any other organization that is anti-PM?

- We currently cannot target our corporate gift to the United Way.
- We are working to change this procedure.

22. What if an employee designates that his/her donation be given to an organization that is anti-PM?

- We cannot prevent this from happening.

23. What did we give to United Way in 1993?

- $1,980,237 as of November 30th. Should the Board approve the $600,000 grant for United Way of Westchester and Putnam, Inc., PM's 1993 giving will total $2,580,237. (Up 16.0% from $2,167,101 in 1992.)

24. How long have we supported United Way?

- Since 1960, PM Companies Inc. contributed a total of $14,095,157 to United Way chapters in our plant communities.

2023991747

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

KGF Contributions

25. Does KGF have a charitable foundation?

- Contributions are made through the corporate contributions program similar to the rest of PM Companies.

26. How much money did KGF give to charities in 1993?

- KGF contributed $14,565,000 in cash donations. (This figure is included in the overall $55,500,000 contributions budget for PM Companies Inc.)

27. Does KGF give away product as well as cash?

- Food products are contributed to non-profit organizations.
- Second Harvest National Food Bank Network is used as the vehicle for making in-kind donations.

28. Can you give specifics for KGF's contributions in 1993?

Hunger and Nutrition	$7,301,699
Education	$5,009,712
The Arts	$2,833,393

- KGF also assists non-profit agencies concerned with needs of minorities, women and the handicapped.

2022991748

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000

29. How much does KGFI spend on contributions to charitable organizations?

- KGFI does not have a contributions budget.
- Kraft Jacobs Suchard was able to sponsor the following activities which in part was supported by PM Companies in 1993:

Opera House, Bratislava $50,000

For the 1993-94 season and ticket-subsidy out-reach programs

Museum of American Folk Art $75,000

Sponsorship pledge for the international tour of the Swiss Folk Art exhibition to Zurich and Neuchatel. This amount will be sent to the Landes Museum in Zurich, the organizers of the Swiss version of the exhibition.

2022991749

Source: https://www.industrydocuments.ucsf.edu/docs/ttjl0000